

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Bell Telephone Company)	98-0252
Application for review of alternative regulation plan.)	
Illinois Bell Telephone Company)	98-0335
Petition to rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates.)	(cons.)
Citizens Utility Board and The People of the State of Illinois -vs-)	
Illinois Bell Telephone Company)	00-0764
Verified Complaint for a Reduction in Illinois Bell Telephone Company's Rates and Other Relief.)	

**WITNESS LIST
STAFF OF THE ILLINOIS COMMERCE COMMISSION**

(Numbers refer to pages in direct testimony, unless otherwise indicated)

Jeffrey Hoagg

Mr. Hoagg's direct testimony (Staff Exhibit No. 1) addresses several policy issues, and summarizes other Staff witnesses' testimony.

1. Statutory and regulatory goals of the plan
2. regulatory approval "not routine." (8)
3. consumer benefits (9-11)
4. Commission options (11-13)
 - A. extend Alt Reg;
 - B. return to ROR
5. Staff recommendation (14 et seq.)

- A. Service quality issues / remedies (15-21)
 - B. Rate reinitialization (22-24)
 - C. Service reclassification (25-27)
6. Summaries of Staff witness testimony (27 *et seq.*)

Mr. Hoagg's rebuttal testimony (Staff Exhibit No. 15) addresses the testimony of Ameritech witnesses O'Brien and Gebhardt, on the issues of (1) just and reasonable rates; and (2) service quality.

Genio Staranczak

Dr. Staranczak's Direct testimony (Staff Exhibit No. 2) sponsors Staff's proposed changes to the formula used in calculating rates in the annual filing.

- 1. Effectiveness of current plan (3-6)
- 2. Proposed changes to plan (7-11)
 - A. Inflation measure / GDPPI
 - B. "X" factor
 - i. Productivity differential
 - ii. Input price differential
 - iii. Consumer dividend
 - C. "Z" factor (exogenous change)(12)
 - D. Service quality component (12-14)
- 3. Future economic growth - effect on Plan (14-16)
- 4. Productivity gains - effect on Plan (16-18)

Dr. Staranczak's rebuttal testimony (Staff Exhibit No. 16) addresses GCI's, City of Chicago's and Ameritech Illinois' (AI or Ameritech) analysis of and recommendations for the price cap formula.

James Zolnierrek

Dr. Zolnierrek's direct testimony (Staff Exhibit No. 3) addresses several economic issues raised by Ameritech Illinois witnesses and offers Staff's opinion on those issues.

1. Analysis of state of competition in Ameritech service territory (3 *et seq.*)
 - A. Substitution of other technologies for local switched service / "addressability" (6-8)
 - B. Market power / existence, uses, potential for abuse (9-16)
2. Rate design criteria for Plan (16 *et seq.*)
 - A. Cost based (16)
 - B. Efficient (16-17)
 - C. Equitable (17-18)
 - D. Ramsey pricing as effecting efficiency, equity (18-20)
 - E. Rate rebalancing (21-24)
 - F. Periodic Data collection recommended (25-26)

Dr. Zolnierrek's rebuttal testimony addresses the testimony of Harry Gildea on behalf of the United States Department of Defense and other Federal Executive Agencies, Thomas M. Regan on behalf of Government and Consumer Intervenor (The People of the State of Illinois, Cook County State's Attorney, The City of Chicago, and the Citizens Utility Board), and Dr. Robert G. Harris on behalf of Ameritech Illinois

Judith R. Marshall

Ms. Marshall's direct testimony (Staff Exhibit No. 4) addresses rate issues and potential methods of rate adjustments. In addition, Ms. Marshall addresses

specific revenue requirement adjustments that Staff proposes to be excluded from the 1999 rate base calculations of Ameritech Illinois.

1. Rate design (4)
 - A. Probability of rate case during period 1994-99 had Plan not been in effect. (4)
 - B. Inclusion of competitive services in ROR analysis (5)
 - i. Recommendation for allocation in the event Commission orders a rate reduction (6)
 - ii. Alternatives to recommendation (7)
2. Merger Costs and Savings
 - A. Requirements regarding tracking of merger costs and saving / status of review (8-9)
 - B. Ameritech recommendation regarding treatment in Plan (9)
 - C. Staff's recommendation (9-10)
3. Annual Reports (10 *et seq.*)
 - A. Continuing need for (10)
 - B. Current content (10-12, 13,14)
 - C. Ameritech's proposed changes to reporting requirement (13)
 - D. Staff recommendation regarding annual reports (14-17)
4. FAS 71 Adjustment (17 *et seq.*)
 - A. Staff proposal regarding adjustment (17)
 - B. Alternative to Staff proposal (18)
 - C. Ameritech proposal and Staff criticism (18-20)

Ms. Marshall's rebuttal testimony (Staff Exhibit No. 18) addresses testimony of Ameritech witnesses Gebhardt, Dominak, O'Brien, and Palmer and presents an overall summary of Staff's position regarding rates in this docket. Ms. Marshall's surrebuttal testimony (Staff Exhibit No. 29) addresses testimony of GCI witness Dunkel regarding Ms. Marshall's proposed adjustments to the amortization of a 1994 accounting change.

Bill L. Voss

Mr. Voss's direct testimony provides Staff's adjusted 1999 rate base for Ameritech Illinois and shows the amount of revenues by which Ameritech Illinois exceeds that adjusted rate base.

1. Presentation of Staff revenue requirement / description of schedules attached to testimony (2-6)
2. Revenue requirement
 - A. Purpose for developing (6)
 - B. Manner in which requirement was developed (7)
 - C. Matters not addressed in revenue requirement (7)
 - D. Summary of result (7)
3. Schedules / Adjustments / Recommendations
 - A. Rate of return (8; Sched. 5.01)
 - B. Adjustments to operating income (8; Sched. 5.02)
 - C. Rate base (8-9; Sched. 5.03)
 - D. Adjustments to rate base (9; Sched. 5.04)
 - E. Gross Revenue Conversion Factor (9; Sched. 5.05)
 - i. uncollectible percentage (9; Sched. 5.05)
 - ii. Staff recommendation regarding uncollectible percentage (10-11)

- F. Interest Synchronization / interest expense (11-12; Sched. 5.06)
- G. Uncollectible expense / Staff recommendation (12-13; Sched. 5.07, 5.08)
- H. Year 2000 operating expenses / adjustments (13-16; Sched. 5.09)
- I. Gross Receipt Taxes (16-17; Sched. 5.10)

Mr. Voss's rebuttal testimony (Staff Exhibit No. 19) presents the Staff revenue requirement, responds the rebuttal testimony filed by Ameritech Illinois and to the direct testimony filed by intervenors, and presents further adjustments to the AI rebuttal operating statement. Mr. Voss's surrebuttal testimony (Staff Exhibit No. 30) responds generally to adjustments proposed by GCI witnesses, and sponsors additional schedules relating to rate base.

Dianna Hathhorn

Ms. Hathhorn's direct testimony (Staff Exhibit No. 6.0) provides adjustments to the rate base calculation used in Staff Exhibit 5.0 (For clarity, outline format continues with that set out in Staff Exhibit 5.0.)

- J. Merger Planning and Implementation costs (3; Sched. 6.01)
- K. Plant under construction (5; Sched. 6.02)
- L. Pension settlement gains (7; Sched 6.03)

Ms. Hathhorn's rebuttal testimony (Staff Exhibit No. 20) presents further information the following adjustments from her direct testimony: Pension Settlement Gains, and Plant Under Construction; and also addresses certain adjustments proposed by the intervenors. Ms Hathhorn's surrebuttal testimony (Staff Exhibit No. 31) addresses adjustments to Pension Settlement Gains, Pension Settlement Gains-Ameritech Services, Pension Settlement Gain-Known 2000 Amounts, Telephone Plant Under Construction and Interest During Construction, Accumulated Deferred Income Taxes, and Software Capitalization recommended by GCI witness Smith.

Mary Everson

Ms. Everson's direct testimony (Staff Exhibit No. 7.0) provides further adjustments to the rate base calculation used in Staff Exhibit 5.0 (For clarity, outline format follows that set out in Staff Exhibit 5.0.).

M. Directory revenue (3; Sched. 7.01)

N. Incentive Compensation (5; Sched. 7.02)

O. Social and service club dues (6; Sched. 7.03)

P. Advertising expense (7; Sched. 7.04)

Q. External Relations (9; Sched. 7.05)

Ms. Everson's rebuttal testimony (Staff Exhibit No. 21) addresses adjustments to directory revenue, incentive compensation, social and service club dues, advertising expense, and external relations recommended by raised by Ameritech witnesses. Ms Everson's surrebuttal testimony (Staff Exhibit No. 32) addresses adjustments to directory revenue and external relations recommended by GCI witness Smith.

Sam McClerren

Mr. McClerren's direct testimony (Staff Exhibit No. 8) addresses historical retail and wholesale service quality results of Ameritech Illinois under the alternative regulation plan and recommends changes in the methodology used by the Company in calculating its service quality results.

1. Retail Service Quality

A. Standards (3)

- i. imposed as part of Plan (4-5)
- ii. Commission purpose in imposing (4-5)

B. Ameritech Performance (5-6)

- i. failure to reach standards (5)
- ii. attempts by Staff and Ameritech to remedy (5)
- iii. continued failure to reach standards (6)

C. Installation (7)

- i. existing standard (7)
- ii. Ameritech's interpretation of standard (7-8)
- iii. Other interpretations (8-9)
- iv. Staff's recommendation regarding standard (8-10)

D. Service quality penalties (11)

- i. Amount imposed (11-12)
- ii. effectiveness in improving service quality (12)
- iii. penalties increased in merger proceeding (12)
- iv. Recommendation (13)

2. Wholesale Service Quality (14 *et seq.*)

A. Relationship between retail and wholesale service quality (14)

B. Merger Condition 30 (15)

- i. collaborative meetings ordered (16)
- ii. results to date of collaboratives (16)
- iii. penalties paid by Ameritech for failure to meet service quality standards (16)

C. Wholesale service quality recommendation (17-19)

- i. Measures (18)
- ii. duration (18)
- iii. penalties (18-19)

Mr. McClerren's rebuttal testimony (Staff Exhibit No. 22) responds to the testimony of Ameritech witnesses Gebhardt and Hudzik, as well as modifying his recommendation in direct testimony seeking incorporation into the plan of a

wholesale performance measure regarding Ameritech Illinois' service quality to competitive local exchange companies ("CLECs").

Cindy Jackson

Ms. Jackson's direct testimony (Staff Exhibit No. 9) addresses Ameritech Illinois retail service quality results and recommends changes to the penalties that the Company would incur if service quality is removed from the Alternative Regulation Plan, or if it remains a part of the Plan.

1. Service quality standards (5-7)
 - A. Current (5-6)
 - B. Recent revisions (6-7)
2. Service quality complaints (7 *et seq.*)
 - A. Process used by Commission Consumer Affairs Division to take complaints (7-8)
 - B. Classification of telecommunications complaints (8)
 - C. Increase in service quality complaints from Ameritech customers (9)
 - D. Number / categorization of complaints received (10-13)
 - i. Received by Commission Consumer Services Division (10-11)
 - ii. Received by Ameritech (12 -13)
 - E. Ameritech customer satisfaction surveys / results (13-14)
3. Evaluation of service quality performance under current Plan
 - A. Ameritech's self-evaluation (15)
 - B. Staff's evaluation (15)
 - C. Benefits realized by Ameritech (16)

- D. Benefits received by / problems undergone by consumers (16)
- E. Lack of choice for most consumers (17)
- F. Remedial / compensatory measures offered by Ameritech (17)
 - i. nature of measures (17-18)
 - ii. adequacy of measures (18)
 - iii. comparison to other Ameritech states (18-19)
- G. Customer credits for poor service quality under current regulations (19 *et seq.*)
 - i. regulation requiring credits (19-20)
 - ii. additional credits not prohibited (20)
 - iii. Industry practice to offer goodwill credits (21)
- 4. Service quality Measures and Benchmarks (21 *et seq.*)
 - A. Ameritech recommendation to add two standards / Staff concurrence (21-22)
 - B. Staff proposals for additional standards (22)
 - i. Missed Installation Appointments (22-23)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24)
 - ii. Missed Repair Appointments (22-23)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24-6)
 - iii. Repeat Trouble Rate (within thirty days) (22-3)
 - a. Ameritech recommendation (22)

- b. Staff recommendation (24-6)
 - iv. Repair Office Answer Time (seconds) (22-3)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24-6)
 - v. Business Office Answer Time (seconds)(22-3)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24-6)
 - vi. Business Office Answer Time (seconds)(22-3)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24-6)
 - vii. Abandon Rate (22-3, 25)
 - a. Ameritech recommendation (22)
 - b. Staff recommendation (24-6)
 - viii. Elimination of certain benchmarks (26)
- 5. Service quality compensation for consumers (26 *et seq.*)
 - A. Installation within five days
 - i. proposed compensation options (26-7)
 - ii. measurement of five day period (28)
 - iii. notification of consumers regarding availability of compensation (29)
 - iv. manner in which consumers obtain compensation (29)
 - v. exemptions (29-30)
 - vi. estimated costs associated with Staff's recommendation (30)

B. Out of Service over 24 hours (OOS>24)

- i. compensation recommendation (31)
- ii. notification of consumers regarding availability of compensation (32)
- iii. manner in which consumers obtain compensation (32)
- iv. exemptions (32)
- v. estimated costs associated with Staff's recommendation (32-3)

C. Missed Installation Appointments

- i. History / Failure to routinely meet (33-6)
- ii. Ameritech compensation proposals (37)
- iii. Staff compensation proposal (37)

D. Compensation for failure to meet other benchmarks

- i. description (38)
- ii. estimated cost (38)

6. Universal Service

- A. Assessment of Universal Service issues during period of Plan (38)
- B. Relationship of penetration levels to Plan (39)
- C. Efforts to study and improve penetration levels (39)

7. Price Cap Formula (41 *et seq.*)

- A. Staff's preference for addressing service quality issues outside of formula with direct compensation to affected customers (40)
- B. Alternative recommendation to address service quality within price cap formula (42)

- i. graduated benchmarks (46-8)
 - ii. incentives to Ameritech (48)
- C. Ameritech's ability to meet benchmarks (44-6)
 - i. savings realized by failure to meet benchmarks (44)
 - ii. possible explanations for failure to meet benchmarks (44-5)

Ms. Jackson's rebuttal testimony (Staff Exhibit No. 23) clarifies portions of her direct testimony regarding the issuance of direct service quality customer compensation, and also responds to certain assertions made in the rebuttal testimony of Ameritech witnesses Hudzik and O'Brien regarding service quality standards and benchmarks.

H.K. "Bud" Green

Mr. Green's direct testimony (Staff Exhibit No. 10) addresses the Depreciation Rates and Fill Factors used by Ameritech Illinois in its development of Long Run Service Incremental Cost (LRSIC) as described in 83 Ill. Admin. Code Part 791.

- 1. Definition of Terms (3)
 - A. Fill factors (3)
 - B. Projected life of assets (3-4)
- 2. Fill factors
 - A. Ameritech's testimony regarding fill factors (4)
 - B. Staff's recommendation regarding fill factors (4)
- 3. Projected life of assets
 - A. Ameritech's position regarding projected life of assets (4-5)
 - B. Staff's recommendation regarding projected life of assets (5-6)

Mr. Green's rebuttal testimony (Staff Exhibit No. 24) addresses the testimony of Ameritech witness Palmer regarding fill factors and the LFAM model for

LRSIC use; and the depreciation corrections made by Ameritech witness Dominak in his rebuttal.

Janis Freetly

Ms. Freetly's Direct testimony¹ (Staff Exhibit No. 11) calculates the Cost of Money that Ameritech Illinois should used in developing its Revenue Requirement for the 1999 Test Year.

1. Summary of findings regarding cost of capital (2)
 - A. definition of cost of capital (3)
 - B. importance of determining cost of capital for public utilities (3)
 - C. recommendation (31)
2. Capital Structure (4)
 - A. relevance of capital structure (4)
 - B. Ameritech's proposed capital structure (5)
 - C. Staff's proposed capital structure (6 et seq.)
 - i. short-term debt
 - a. method of calculating balance of short-term debt (6)
 - b. method of calculating cost of short-term debt (8)
 - ii. long-term debt
 - a. method of calculating balance of long-term debt (7)
 - b. method of calculating cost of long-term debt (9)
 - iii. common equity
 - a. method of calculating balance of common equity (7)

¹ Ms. Freetly's testimony will be adopted by Staff witness Dr. Allan Pregozen.

- b. method of calculating cost of common equity (10 et seq.)
 - 1. Sample of comparable telecommunications companies (10)
 - 2. DCF analysis (11-18)
 - 3. Risk premium analysis (19-28)
- c. recommendation - rate of return on common equity (28)

Ms Freetly's rebuttal testimony (Staff Exhibit No. 25) addresses the testimony of GCI witness Dunkel and Ameritech witness Avera. In addition, Ms. Freetly explains the relationship between a company's capital structure and the cost of common equity and why book value capital structure should be used in determining the proper rate of return for Ameritech Illinois (AI) in the context of traditional rate setting procedures. Further, Ms. Freetly presents her recommendation of the overall cost of capital of AI for LRSIC purposes.

Joy Nicdao-Cuyugan

Ms. Nicdao-Cuyugan's direct testimony (Staff Exhibit No. 12) addresses the testimony of Ameritech Illinois witness Avera and the impact of the Alternative Regulation Plan on the financial community's view of Ameritech Illinois.

- 1. Ameritech's position regarding investor perceptions (2)
- 2. Staff's position regarding investor perceptions (2 et seq.)

Ms. Nicdao-Cuyugan's rebuttal testimony (Staff Exhibit No. 26) responds to the testimony of Ameritech witness Avera.

Robert Koch

Mr. Koch's direct testimony (Staff Exhibit No. 13) addresses the performance of the Alternative Regulation Plan since its inception and recommends changes to the Plan that will provide benefits to both the Company and the consumers in the future.

1. Description of price cap mechanism
 - A. Annual filings (6-7)
 - i. PCI (7, 8)
 - ii. API (9)
 - iii. Basket structure (7)
 - B. Commission determination of reasonableness (7)
2. Performance of Plan
 - A. Compliance issues - service baskets (11)
 - i. Listing Of Services In Each Basket / Report Of Cumulative Percentage Changes In Prices For Services (12)
 - ii. Listing Of Withdrawn Services (13)
 - iii. Listing Of Reclassified Services (14)
 - iv. Summary Of New Services (15)
 - B. Compliance issues - annual filings (16)
 - i. Service Quality (Q) (16)
 - ii. GDPPI (18)
 - ii. Exogenous change (Z) (19)
 - C. Service basket structure (19-25)
 - D. Effects of Service reclassification (26-29)
3. Ameritech's proposed changes to Plan (30)
 - A. consolidation of service baskets (31)
 - B. combined API (32)
 - C. pricing flexibility (35)

4. Staff's recommendation (37)

Mr. Koch's rebuttal testimony (Staff Exhibit No. 27) responds to the testimony of GCI witness TerKeurst, as it relates to the structure of the service baskets used by Ameritech in its alternative regulation plan. Mr. Koch further addresses the testimony of Ameritech witnesses Gebhardt and O'Brien, and provides further evidence concerning the impact of competitive reclassification. Mr. Koch's surrebuttal testimony (Staff Exhibit No. 33) addresses the testimony of GCI witness TerKeurst and AT&T witness Hegstrom.

Mark Hanson

Mr. Hanson's direct testimony (Staff Exhibit No. 14) addresses Ameritech Illinois' rate rebalancing proposal, provides a Staff alternative to the Company proposal, and also provides a general rate design if the Commission decides to reinitialize rates or return the Company to rate of return regulation.

1. Ameritech's rate rebalancing proposal
 - A. State purpose for proposal (2-3)
 - B. revenue neutrality (3)
2. Staff's opposition to Ameritech's rate rebalancing proposal
 - A. understatement of revenues from access and proposed adjustment (4-5)
 - B. Significant cost increases in updated LRSIC studies (5-7)
 - C. increase in revenues (7)
 - i. demand inelastic (7-8)
 - ii. size of revenue increase (8)
 - iii. overstatements of revenue reductions (11)
3. Staff's alternative rate rebalancing proposal (14)

- A. Smaller increases, determined by access area, in the event LRSIC studies are approve by Commission (14)
 - B. Band A local usage decreases (16-18)
- 4. Staff's proposed rate reduction, if approved by Commission (18)
 - A. Application to only non-competitive rates (20-21)
 - B. rationale (21 et seq.)

Mr. Hanson's rebuttal testimony (Staff Exhibit No. 28) addresses the testimony of United States Department of Defense and All Other Federal Executive Agencies witness Gildea, the testimony of GCI witness Dunkel and the testimony of Ameritech witnesses Palmer, Gebhardt, Sorenson, and Harris. Mr. Hanson's surrebuttal (Staff Exhibit No. 34) addresses the testimony of AT&T witness Hegstrom.